

## Private Governance Is Non-Coercive

By Edward Peter Stringham *The Conversation* October 29, 2015

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A theme among the questions from the commentators is how we draw the line between public government and private governance. For example, Aaron Ross Powell asks, “[Is the private state always parasitical?](#)” He describes a privately owned and governed island and classifies the owner of the island as a state. Mark Lutter similarly asks, “[When Does Governance Go Public?](#)” and writes, “I prefer Weber’s definition of a state, a territorial monopoly of force. This means that a sovereign privately developed and owned city would be a state, contrary to Stringham.”

In responding to these questions, I will also respond to Lutter’s [earlier question](#) about whether a monopoly government is superior to having many competing providers of private governance. Lutter says that although having a market produce 23 types of deodorant is a good thing, we don’t want to let every crazy person exercise their preference for violence.

I agree with Lutter on this last point and I have written about this in more depth in my article, “Overlapping Jurisdictions, Proprietary Communities, and Competition in the Realm of Law.”[1] I wish I had included more of the discussion from that article in my book, but let me elaborate on some of these arguments here.

Lutter and I agree that one of our main goals should be to minimize the use of violence, and we should not be looking for ways to satisfy “low-frequency preferences for violence.” Authors including Robert Nozick and James Buchanan supported monopolizing law enforcement for this reason. But to me, one can limit violence without resorting to a coercive monopoly government.

Part of the potential disagreement between me and Lutter and Powell is over the key features of a state. To me, if an island is private property and governed by its owner, the owner is a proprietor or a landlord and not a state. Although I mostly like Weber’s definition of a state, a “human community that successfully claims the monopoly of the legitimate use of physical force within a given territory,” I like Aaron Ross Powell’s [amendment](#) where he adds: “And funds its activity via taxes.” Even more, I like Rothbard’s slightly amended version where he says states also rely on taxation and “arrogate to themselves a compulsory monopoly of police or judicial protection.” To me the key is that the government arrogates a monopoly of law, not that an entity is a monopoly. Even if one provider in a region exists, as long as people voluntarily choose it and it does not rely on taxation, that entity is fundamentally different from a state.

Consider how amusement parks or shopping malls bundle many public goods like sidewalks, street lights, and restrooms with the provision of private goods like entertainment or shopping. Does Disney have a monopoly of restrooms in Disney? Yes! But is it a problem? No.

Because Disney bundles restrooms with the rest of its services, it needs to provide a package that customers desire most. As the owner of its realm, Disney is the residual claimant for the quality of everything that it provides, including entertainment, restrooms, and security.

A proprietary community that provides security must evaluate how its security affects the demand for its other products. Government by contrast neither earns profits nor suffers losses if the quality of its police improves or deteriorates. Government police often act against the wishes of the public, and the public has little option but to put up with it.

What would happen if the federal government, your state government, or your town council or mayor’s office had a monopoly over providing sidewalks and restrooms in all amusement parks and shopping malls? Most people would recognize that this would be a disaster. One option would be to say that we

should privatize restrooms and let multiple restroom companies in each park or mall. Proposals could have a different restroom company on each block or would have porta-potties traveling throughout. Although either option might work, a more straightforward option is to privatize restrooms and let them be provided by the proprietor of the park or mall. Nobody worries that a mall or park owner is the monopoly provider of restrooms in its space. Most modern economists reject old fashioned structure-conduct-performance style analysis (basically, the idea that having more firms is always good and having fewer firms is bad) and I think we should reject it here too. As long as consumers voluntarily choose the product, one knows that a firm's dominant position is due to customer satisfaction.

If I want to do business at the London Stock Exchange or be a guest at Disney, I am okay with agreeing to follow the rules of the London Stock Exchange or Disney. Neither arrogates their monopoly of rule enforcement in their realm or coerces taxation out of unwilling subjects. Instead they must win customers and work to please people who does business with them. This is how private governance works.

Read more [here](#) and [here](#).

## Note

[1] Stringham, Edward Peter. 2006. "Overlapping Jurisdictions, Proprietary Communities, and Competition in the Realm of Law." *Journal of Institutional and Theoretical Economics*, 162(3) September: 516-534.